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U.S. DEPARTMENT OF COMMERCE
Under Secretary for International Trade

March 24, 1982

To: Honorable William Casey

From: Lionel H. Olmer *LHO*

Bill -

Per our conversation this morning, I am attaching a proposed outline for your study of the impact on the Soviet Union of Western credit restrictions. Suggestions from Treasury and Defense are incorporated.

An alternative approach to the problem is also attached. I suggest that our staffs get together to work out a final outline.

Attachments

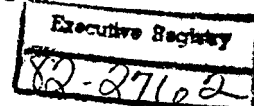
Not referred to DOC. Waiver
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Outline for Evaluation of Impact of Credit Restrictions
On the Soviet Economy



Assumption

Soviet hard currency earnings will not be sufficient to finance the desired level of imports. Therefore, credits from the West will be important in the future in terms of sustaining levels of imports necessary to promote economic growth.

Soviet Financial Position Under Various Senarios

Analyze future Soviet economic/financial position under the following Western credit scenarios below:

I. Base Case - thru end of century. Extend present mix of private and offical credits (and guarantees)--use annual average extensions 1975 - 1981.

II. Raise offical credit or other representative period interest rates to commercial levels (no official subsidies) and cut back volume of official credits and guarantees by one half over five years; and consider effect on private credits.

III. Eliminate all official credits (and guarantees) over five years; and consider effect on private credits.

IV. Expand by 50% Western credits over five years (private and official).

Examination of Impact

Examine the medium to long-term impact out of 1995 of the scenarios on:

Soviet ability to maintain economic growth;

Soviet hard currency trade position, including debt, overall levels export/import trends; (Project Soviet/EE debt levels (official and commerical) under each scenario.)

Energy, including Siberian development and offshore;

Agriculture with emphasis on future import levels;

9 defense-priority industries (ability to obtain Western equipment and technology);

Soviet trade with Eastern Europe, including future credits from West, degree of COMECON integration; and

Soviet need to go to other areas, e.g., Middle East and other Third World to obtain raw materials/energy and expand political influence.

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NEXT STEPS
CIA EAST - WEST TRADE Analysis

Purpose:

Analysis to support future discussions with Allies to build support for Western controls on trade/credit to USSR.

Assumption:

In the 1980's trade is the Achilles' heel of Soviet bloc economies, which are greatly dependent upon Western imports of credits, equipment, and know-how to maintain current economic growth rates. It is also the Achilles' heel for the West if the USSR enjoys the same success in importing credits and advanced technology as it did in the 1970's. Under those circumstances, the Soviet Union would be able to complete the modernization of its force structure and use trade ties, particularly in Europe, to neutralize U.S. allies.

Points for Analysis:

- o Assessment of extent of Western contributions to nine Soviet defense priority industries, particularly:
 - Bloc-wide integration of these industries;
 - Industrial reorganization plan announced by Brezhnev at the 26th Party Congress (facilities which have received Western equipment, technology etc. may be shifted from "civilian" to military status).
- o Identify critical problems in Soviet defense priority industries (e.g. manpower, technology, know-how) throughout the Bloc and individually.
- o Assess importance of development of Siberia for future of Soviet economy and relations with Eastern Europe (e.g. energy supplies).
- o Estimate impact of partial and total credit embargos on performance of Soviet and Bloc economies, including ability of defense priority industries to meet military needs.
- o Gauge ability of Bloc countries to wage economic warfare against the West and compete with U.S. for influence in the Third World. Does Soviet bloc borrowing "crowd out" the Third World?
- o Identify where military equipment from Kama, Zil, Gaz and other facilities has been shipped to Warsaw Pact or other allies.
- o Soviet cash flows (historical at least 5-10 years and future projections).
- o Soviet - West European/Japan long-term commercial arrangements
 - key provisions
 - time frames, etc.
- o Examination of Soviet trade and the interconnects between credits and trade and Soviet military buildup. Problems of import penetration in the West.
- o Vulnerability of Western financial system to Soviet leverage on debt.